

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

--	--	--	--	--	--	--	--	--	--

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BBF3044—CORPORATE FINANCIAL MANAGEMENT (All sections / Groups)

3 MARCH 2017
9.00a.m–11.00a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 2 pages with 4 Questions only.
2. Attempt all the **FOUR** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

- a. You are given the following information about three stocks.

State of economy	Rate of return if state occurs		
	Stock S	Stock T	Stock U
Boom	0.30	0.50	0.40
Good	0.15	0.08	0.20
Poor	0.05	-0.01	0.02
Bust	-0.05	-0.15	-0.11

Your portfolio is invested 35 percent each in S and T and 30 percent in U. The probability of each state of economy is equal. The expected T-bill rate is 3.20 percent. Determine the following:

- i. The expected return of the portfolio (11 marks)
 - ii. The portfolio standard deviation (5 marks)
 - iii. The expected risk premium of the portfolio (2 marks)
- b. Kishen Plantations has no debt. Its cost of equity capital is 8.5 percent. Kishen converts to a debt-equity ratio of 0.6. The after-tax interest rate on the debt is 7 percent. The tax rate is 35 percent. Compute Kishen's new WACC. (3 marks)
- c. Explain why a firm might prefer a stock repurchase rather than an increase in the firm's regular dividend. (4 marks)

(Total: 25 marks)

Continued...

QUESTION 2

- a. Currently, you can exchange \$1 for 110.50 yen or €0.8500 in New York. In Tokyo, the exchange rate is ¥1 = €0.0085. If you have \$1,000, how much profit can you earn using triangle arbitrage? Show each steps. (11 marks)
- b. Financial analysts typically classify acquisitions into THREE types. Explain each of them briefly. (9 marks)
- c. The current spot rate between the U.K. and the U.S. is £0.7575 per \$1. The expected inflation rates in the U.S and in the U.K. are 2.1 percent and 4.5 percent respectively. If relative purchasing power parity exists, determine what will be the exchange rate 2 years from now. (5 marks)

(Total: 25 marks)

QUESTION 3

- a. Imagine yourself as a Financial Consultant for a multinational corporation. The Management instructs you to suggest the most appropriate amount of short-term borrowing that should be applied by the corporation for the upcoming business period. Identify main considerations / factors that must be included in your analysis. (15 marks)
- b. Analyse comprehensively credit terms of 5/20, net 50 for a business transaction amounted RM10,000.00. (10 marks)

(Total: 25 marks)

QUESTION 4

SuriaKencana Inc. has 14 million shares of common stock outstanding, 900,000 shares of 9 percent preferred stock outstanding and 210,000 ten percent semi-annual bonds outstanding, par value RM1, 000 each. The common stock currently sells for RM34 per share and has a beta of 1.15, the preferred stock currently sells for RM80 per share, and the bonds have 17 years to maturity and sell for 91 percent of par. The market risk premium is 11.5 percent, T-bills are yielding 7.5 percent, and the firm's tax rate is 32 percent. What discount rate should the firm apply to a new project's cash flows if the project has the same risk as the firm's typical project?

(Total: 25 marks)

End of Page